Jannock Corporation Limited

Annual Report 1973

Earnings up 38%

Sales increased 25% to $171,000,000 and earnings per share rose 38% to $1.23 compared with 89 cents for the year 1972. Page 15

Change of Control

Control of Jannock has passed to the Canadian public. No single shareholder owns more than 10 per cent of the shares. The Company has a new Board of Directors and a new chief executive, and the support of several major institutions and investors. Page 28

Food and Industrial Divisions Formed

The Company has reorganized internally and created a food division and an industrial products division. Page 2

Industrial Division - Operating Earnings up 48%

Jannock Industries Division has four operations, each a leader in its field, each growing and yielding a high return on invested capital. Page 7

Tuna Operation gains Market Share

Growth in Jannock's tuna fishing operation exceeded industry averages. Page 5

Sugar Trading - Bad News

The Company's Bermuda-based commodity trading business incurred a loss in world sugar price speculation. This operation has been closed. Page 5

Prospects for 1974 - Good News

An increase in earnings is predicted for 1974. Page 3

Legal for Life

The Company's securities have been approved as eligible investments for life insurance companies. Page 26

Future Strategy

Management has defined where Jannock is going, and how it is going to get there is detailed in a four-point strategy for the future. Page 3

President's Report

This is the first annual report to shareholders of Jannock Corporation since its formation on June 29, 1973 by the amalgamation of the two predecessor companies. Jannock is an ancient word meaning straightforward and we have tried to present a report this year which reflects its new name. Our intention in this report is to explain more about the Company, to tell you where our earnings come from, and how our assets are employed. We are proud of the Company and its performance. We hope you will understand more clearly Jannock's business, its strengths, its accomplishments and its future prospects after reading what follows.

Results for the Year

Sales increased 25% to $171 million, and earnings for the year rose 38% to $1.23 per share compared with 89 cents for the year 1972. All operating divisions were profitable.

Atlantic Foods Division

This division, which represents 59% of Jannock's sales and 47% of its earnings from operations, grew at a rate of 28% and 5% on sales and earnings from operations respectively. All three profit centres improved in earnings and the contribution of sugar refining to the operating earnings of the division declined from 95% to 72% as the Atlantic Fish and Tuna businesses moved ahead in earnings from operations. This trend is expected to continue as the division expands its food interests.

Industrial Division

This division, which makes and distributes steel tubing, electrical components and bricks, continued its history of growth with sales and earnings from operations up 30% and 48% respectively.

From a contribution of 21% of earnings from operations to the group four years ago, these four businesses now contribute 32% and the trend is expected to continue in the future.

Forest Products Division

Favourable prices for lumber gave Northern Tar, Chemical and Wood a record profit from its lumber operations for the year with sales and earnings from operations up 25% and 133% on last year.

Acadia Pulp also had a good year and showed its first significant profit in its history.

Sugar Trading – Bad News

In a year of good news and earnings records in all operating divisions the one piece of bad news came from Bermuda where the Company has operated since 1971 a commodity trading business Berlantic Enterprises Limited. In mid-year Berlantic considered the price of sugar on world markets was too high and sold short. Unfortunately the price of sugar never came down as predicted and that position was substantially closed out in December. Berlantic's loss for the full year was $3,700,000, which was not deductible for taxes due to Berlantic's Bermuda incorporation. The impact on the Company's earnings was 74 cents per share.

Your directors have considered the situation carefully and have decided that in future Jannock will not trade commodities other than to supply the refinery with raw material and to hedge physical inventory and forward-sales commitments of the business. Consequently, the operation in Bermuda has been closed.

What is Jannock?

Jannock will in future concentrate on two areas of business. These are food and industrial products. Management has studied the return on investment and future prospects of each of its other businesses and concluded that $21 million invested in Forest Products should be realized and redeployed in selected areas. It is hoped that this will be achieved during 1974. In future we expect that Jannock will be a two industry Company.

Developing Trends

We believe the importance of our sugar activity has tended to be over-emphasized in the past. It is interesting to note that in the year under review, 66% of our earnings from operations came from non-sugar activities. Only two years ago, in 1971, this percentage would have been 25%. We hope to be able to develop the Company in the future with a fair degree of balance between food and industrial products.

Future Strategy

A great deal of thought and planning has gone into developing a strategy for the future. We have decided where we are going and how we are going to get there. Our main goals are to

- Realize and redeploy assets presently invested outside the food and industrial division;
- Develop the internal growth potential of the remaining enterprises;
- Diversify within the food industry by developing new products and by acquisition;
- Expand the industrial operations with new investment and seek acquisitions of other industrial companies principally in the fields of metals and electrical components.

While we feel the opportunities for expansion in Canada are great we will not be blind to opportunities beyond our borders, the United States being the most likely market for expansion. If and when we do move outside Canada it will be with great caution and will only be done where the size and potential of our investment merits the amount of time and energy required of management.

As one of the largest Canadian controlled manufacturing companies we feel confident that the impact of the recently introduced Foreign Investment Review Act will be beneficial to us. We believe it will give us an environment in which we can grow rapidly.

Organization

The Company operates with decentralized management and a small head office staff. Considerable autonomy is granted to the general manager of each profit centre but detailed planning is coordinated from head office and strict financial controls are maintained. Since amalgamation, the planning and financial systems have been greatly strengthened throughout the group.

1974 Prospects – Good News

But for the 74 cent loss from sugar trading in 1973, Jannock's earnings would have been $1.97 per share. As there will be no comparable loss in 1974 due to cessation of commodity trading activities, the prospects are good for a significant increase in earnings over 1973's $1.23 per share. We expect all three divisions will show improved earnings.

Our Industrial Division will continue to expand, hampered only by the shortage of steel and capacity limitations. While improved performance is expected in fishing operations, sugar earnings will be affected by new competition.

New Investment

A number of new capital investment programs are scheduled for 1974. Sonco will add another tube mill and St. Lawrence Brick will double its capacity by adding a second kiln. Canada Brick is seeking municipal approval to build a concrete plant at its Mississauga plant, and Atlantic Fish will take delivery of five new trawlers which will be leased.

Management

I was appointed President and Chief Executive Officer in November, 1973 replacing Mr. J. H. Hawke. We are indebted to him for his contribution to the Company. Mr. Hawke continues as a Director and Vice-Chairman of the Company.

From left: C. W. Leonardi, G. G. Kirkland, D. G. Sinclair, L. E. Labrosse, R. H. Weir

Employees

At the end of the year Jannock employed 3,432 people. It is only through the drive and loyalty of these people working together in harmony, with pride in their contribution, that the excellent results of this year were accomplished. We appreciate their efforts and rely on their continued support.

We are optimistic about the future of the Company and are working to build its strength and reputation. A number of favourable changes has given us an encouraging start:

- Control has passed to the Canadian public and no one shareholder holds more than 10% of the voting stock.
- We have greatly simplified the corporate structure and are reducing the range of activities.
- We have adopted a policy of more complete disclosure of financial information.

We will maintain close contact with shareholders, and keep you informed of our progress. We look forward to your continued interest and support.

G. G. Kirkland

Atlantic Foods Division

Divisional Analysis of Sales and Earnings from Operations
$ Million

	Sales				Earnings from Operations*				Tangible Assets Employed	No. of Employees
	1973	1972	1971	1970	**1973**	1972	1971	1970		
Food Products										
Sugar	**79.7**	63.8	56.4	49.3	**7.0**	8.6	10.9	10.7	26.8	491
Tuna	**10.4**	6.4	5.8	3.4	**.7**	(.2)	(.8)	(1.2)	20.6	210
Fisheries	**9.9**	7.6	8.7	8.9	**1.9**	.7	.7	1.3	12.4	598
Total	**100.0**	77.8	70.9	61.6	**9.6**	9.1	10.8	10.8	59.8	1,299

*Before financial expenses and income taxes.

Sales of the Foods Division in 1973 were $100,000,000 and earnings from operations $9,600,000. This places the division among the largest food companies in Canada in terms of both sales and earnings.

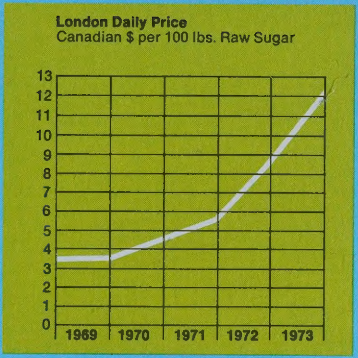
Early in 1974 all food operations will be grouped under a wholly-owned subsidiary named "Atlantic Consolidated Foods Limited".

While our strength has been concentrated in the processing and selling of commodity type products, more recently through our tuna operations we have developed skills in marketing consumer products and through the Atlantic Fish business we are involved in frozen foods. It is our intention in the future to expand the division to handle a broader line of food products.

Earnings of food producing companies tend to be stable, although growth rates tend to be low, basically following population trends. In certain sectors of the market, however, growth exceeds the averages. Tuna is such a case and we will in future be focusing our attention on others. Acquisition and merger opportunities are currently being investigated.

Sugar sales volumes will be reduced in 1974 by the start-up of a new competitive refinery at Oshawa, Ontario. Nevertheless, through the elimination of the raw sugar trading loss of 1973 and expected profit improvement in tuna operations, the 1974 earnings from operations of this Division should be higher than in 1973.

Sugar Operations



Business Description

Raw cane sugar, most of it imported from Australia, South Africa and Mauritius, is refined at Saint John, New Brunswick. Capacity of the refinery, which operates on a three shift basis, is 600 million pounds per year. Atlantic supplies about 25% of the Canadian market demand. Deep-water dock facilities at Saint John permit year-round delivery of the raw product by ship. Rail and truck transportation are used to transport finished products to Company warehouses in Montreal and Toronto, to commercial warehouses and to customers.

The Canadian market for sugar is over two billion pounds annually, with industrial users accounting for approximately 60% of production. Atlantic produces a full range of industrial and consumer types and packages of refined sugar products which are marketed from the east coast to Manitoba under the "Lantic" trade name. Bulk and liquid sugar are supplied to industrial food processors.

Operations and Prospects

Sales volume for 1973 was at a record high, with heavy export orders.

The tight raw sugar supply situation continued throughout the year. Atlantic's raw sugar for 1973 was purchased under the provisions of the International Sugar Agreement and enabled the Company to maintain relatively low refined sugar prices.

Losses in raw sugar trading were incurred by Berlantic Enterprises Limited, a subsidiary company. The shortfall in supply of raw sugar, coupled with ocean freight rate increases and speculative influences in the market, contributed to higher prices whereas Berlantic's market position was based on anticipated lower prices. Berlantic's operations have now ceased and the policy of the Company is to minimize trading risks.

The economic aspects of the 1968-1973 International Sugar Agreement terminated on December 31. The agreement attempted to stabilize raw sugar prices and supply through quota and pricing provisions. All Canadian sugar refiners now purchase their raw sugar requirements at world prices and these prices have tended to be volatile and sharply higher in the first quarter of 1974, generating increased prices to the consumer.

On May 31 Atlantic and two other eastern Canadian refiners were charged under the Combines Investigation Act. The preliminary hearing began November 8 and it is expected the decision as to whether the Company will be bound over for trial on the charges will be handed down shortly.

The new refinery in Oshawa represents a 12½% increase in capacity in eastern Canada. The operators have been major purchasers of refined sugar in our market area.

With the volatile sugar markets, the entry of another sugar refiner in the eastern Canadian market, and rapidly rising costs, 1974 will be a year to test us. With the minimization of trading risks, however, the profits on sugar operations should be higher than in the year just ended.

Canadian Tuna

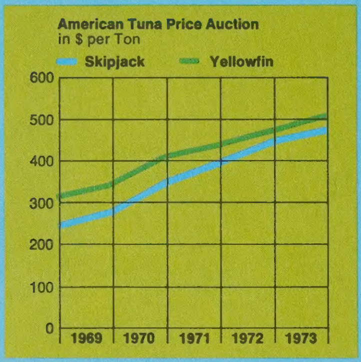
Business Description

Five 200-foot tuna purse seiners operate in the North Atlantic, off the west coast of Africa and in the Pacific off Peru and Ecuador. Built in 1967-68, all have recently been modified to accommodate the wet well freezing system. This system enables them to take on and freeze immediately greater quantities of fish.

Catches of tuna are trans-shipped via refrigerated ships to a Company-owned cannery located near St. Andrews, New Brunswick, or are sold to American or European canners. This plant, operating on a one-shift basis, can process approximately 25 million pounds of canned tuna annually. The catch is cleaned and cooked in industrial ovens and canned in a variety of sizes.

Products are sold across Canada under the trademarks "Bye the Sea" and "Chicken of the Sea". Cat food is marketed as "Kitty Treat". The Company supplies more than 20% of the rapidly growing Canadian market.

Atlantic Foods Division



Canadian Tuna (continued)

Operations and Prospects

The past year saw a turnaround in tuna operations and for the first time we were able to record a profit. There is ample reason to believe the early problems have been overcome and 1974 will see the operation contributing greater profits to the Company.

In spite of competition from the growing international tuna fleet, the Company's 1973 catch was the highest on record. With all five vessels expected to be in full operation during 1974, an even greater catch of tuna can be expected. Increased fuel costs, however, will be reflected in higher prices for canned tuna.

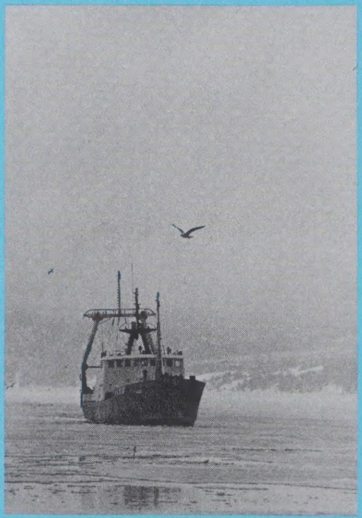
A concerted effort was made in 1973 to increase sales and, with aggressive marketing and promotion, total sales on a case volume basis increased by 70% over 1972 sales. Sales of both "Bye the Sea" and "Chicken of the Sea" tuna increased substantially at a greater rate than the total tuna market. The complete range of "Bye the Sea" labels was redesigned, which contributed to increased sales.

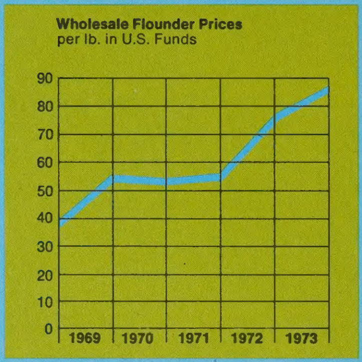
The increase in sales would have been even greater but was restricted by production limitations at the cannery. A lack of trained personnel was costly to our operations, but it is hoped recently negotiated higher wage rates will attract additional employees.

Atlantic Fish

Business Description

Ten modern 152-foot stern trawlers fish off Newfoundland on trips averaging ten days' duration, delivering the catch of sole, cod, flounder, ocean perch and catfish to Marystown, Newfoundland, for processing and packaging. The plant there is one of the latest and largest of its type in Canada and is capable, on a one shift basis, of processing annually more than 60 million pounds of fish into 20 million pounds of frozen fillets. Most of its production is marketed in the United States.





Operations and Prospects

Sales and profits before taxes of Atlantic's Fish operations were at an all-time high. Better prices and heavier landings produced increased profits.

Demand for the product continued strong during the year and prices surpassed previous records. The entry into the American market of lower grade, lower priced Japanese flatfish in substantial quantities, however, casts doubt on the prospect for continued improvement in prices.

The division has agreed to lease five new 142-foot trawlers and these will be delivered during 1974. Although the dimensions of the leased vessels differ from our in-service vessels, the basic equipment will be identical, thus simplifying maintenance.

The full impact of the five leased trawlers will not be felt until 1975, but the additional catch in the latter half of the year should make it possible to hold profitability in 1974 close to the 1973 level.

A two-year labour agreement was concluded in the fall of 1973 providing for substantially higher wages in line with the pattern of settlements in the industry. The new wage rates should attract a greater number of competent employees to satisfy the plant's manpower needs.

Increased labour and fuel costs will tend to apply upward pressure on selling prices. Oil supplies for the operation are expected to be adequate.

Industrial Division

Divisional Analysis of Sales and Earnings from Operations
$ Million

	Sales				Earnings from Operations*				Tangible Assets Employed	No. of Employees
	1973	1972	1971	1970	**1973**	1972	1971	1970		
Industrial Products										
Allanson	**6.4**	5.4	4.4	4.4	**1.0**	.8	.6	.5	2.9	285
Canada Brick	**6.9**	5.8	5.0	3.7	**2.0**	1.6	1.7	1.2	6.4	184
Lyman	**12.1**	9.2	7.3	6.8	**.6**	.4	.2	.1	4.5	119
Sonco	**15.2**	10.7	9.2	8.9	**2.9**	1.6	1.5	1.2	8.5	155
Total	**40.6**	31.1	25.9	23.8	**6.5**	4.4	4.0	3.0	22.3	743

*Before financial expenses and income taxes.

The combined sales of the Division in 1973 were approximately $40,000,000 and earnings from operations $6,500,000. All units operated profitably during the year.

Some common characteristics have emerged among units of the Division, each of which provides products and components to industrial users rather than an end product. Over the past four years each of the units has enjoyed significant sales and earnings growth and each is a market leader in its field of activity. This strong market position has in turn allowed each operation to earn a relatively high return on investment.

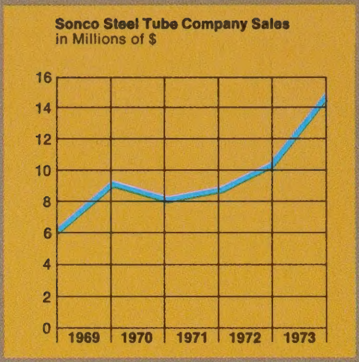
The strong demand of recent years for the group's products intensified during 1973 and the earnings reflect its efforts to serve the market's requirements.

Each business increased sales and earnings, each operated at or near capacity, and each planned important capital expenditures to accommodate increasing production needs.

The outlook for 1974 is encouraging. We expect a continuation of 1973 expansion trends. Opportunities will be sought for diversification where logical and where profitability can be assumed in the short term. Acquisitions for the Division will be sought in related fields.

Industrial Division

Sonco Steel Tube



Business Description

Sonco is engaged in manufacture and sale of cold formed, electrically welded steel tubes and hollow structural steel sections at a modern 100,000 sq. ft. plant at Brampton, Ontario.

Cold rolled steel strip is purchased from Canada's major steel companies and is fabricated into a wide range of tubular products for sale to manufacturers and specialty steel warehouses. Tubular steel is used in many fields from manufacture of furniture and wheelbarrows to snowmobiles and garden tools. Hollow structural sections are used by auto manufacturers and agricultural equipment companies as well as in construction.

Hollow structural shapes have significant weight saving advantages over conventional shapes used in construction. As the advantages become better known, the demand for this product is increasing substantially each year.

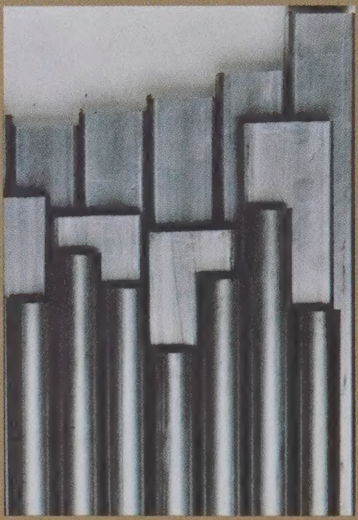
Operations and Prospects

Sonco Tube enjoyed a 42% increase in sales in 1973 and a 81% increase in profits.

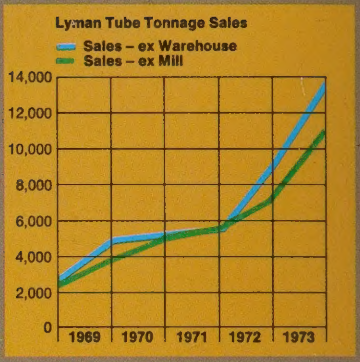
Although business generally was affected by the shortage of steel, the operation was able to fill most of its requirements. Sonco developed new markets for its hollow structural tube business with western Canada farm implement manufacturers and various other industries.

In September 1973, a completely modern materials handling facility was installed, increasing plant capacity and reducing handling cost. Similar equipment for another line has been ordered. Purchase orders are presently being placed for a new small range hollow structural mill which will be operational in mid-1975. With the addition of this equipment, total production capacity will be increased by 35-40,000 tons annually.

Prospects for 1974 are encouraging both for sales and earnings, and are evidenced by heavy advanced bookings for product.

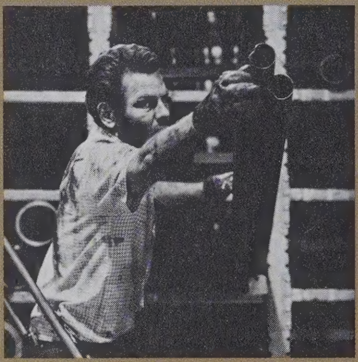


Lyman Tube



Business Description

Lyman Tube is engaged in warehousing, sale and distribution of steel tubing across Canada. Distribution is through strategically-located service centres at Oakville, Montreal, Winnipeg, Vancouver, and Edmonton.



Lyman Tube buys, warehouses and sells tubes of all sizes and lengths for a variety of industrial users. Round, square and rectangular forms are available, both seamless and welded. Sales correspondents and co-ordinators, supported by a technical field sales force, provide the required service and advise customers of the latest technology. Lyman has for many years been the Canadian distributor of tubular products of U.S. Steel.

Operations and Prospects

Calendar 1973 was the first year in Lyman Tube's history in which its entire resources were concentrated on the sale and distribution of carbon steel tubular products. Sale of the fastener and materials handling divisions allowed the Company to pursue more effectively specialized marketing techniques throughout the country.

Selling prices increased by 5% on the major product line and up to 10% on other products, with all major suppliers introducing allotments during the year.

Sales increased by 30%, a new record, reflecting a greater volume of shipments, attributable to broader marketing coverage and higher prices.

Capital expenditures of over $320,000 included the expansion of the Oakville warehouse and purchase of additional materials handling equipment and racking for that facility and the warehouse in Winnipeg. Construction is proceeding on a new service centre located in the industrial park on Annacis Island, Vancouver, with occupancy scheduled for early 1974. This service centre will be sold and leased back.

It is expected material and energy shortages will be a factor in the industry; nevertheless a continuing strong demand is seen for all steel tubular products in 1974, and we entered the new year with a heavy order book.

Allanson Manufacturing

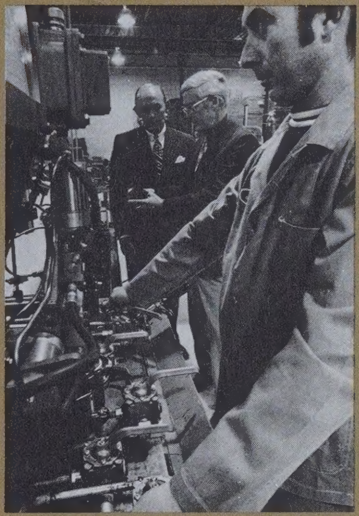
Business Description

Allanson Manufacturing Company manufactures a wide range of electrical products including oil burner ignition transformers, ballasts and transformers for the lighting and illuminated sign industries, and battery chargers. To complement its line of oil burner ignition transformers, Allanson manufactures and sells under license the high quality Webster fuel unit for the Canadian market.

The company is Canada's major producer of ignition transformers and occupies as well a dominant position in the supply of ballasts and transformers for the sign industry. Doing its own research, Allanson successfully competes in its own product line in Canada with the extensive international resources of the major electrical companies.

Operations and Prospects

Allanson Manufacturing Company experienced good growth in almost all product lines in 1973.



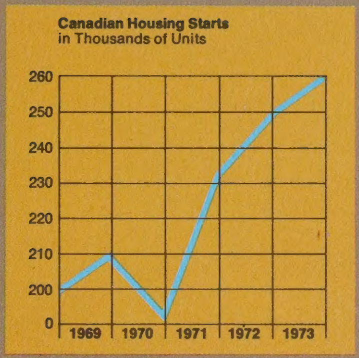
Sales of oil burner ignition transformers increased by 13% over 1972. Sales of this line of equipment may be reduced in the first half of 1974 because of the possibility of fuel supply shortages. To offset this, the new product line of Webster Electric fuel pump units will provide real gains in 1974.

Mercury ballast sales increased by 61% in 1973 and the trend is for continued growth in 1974.

Allanson is constantly engaged in cost reduction programs in an effort to offset as much as possible the increased cost of materials and labour. The success of these efforts is shown in the sales and earnings over the last four years. Sales have increased 50%, while earnings from operations have increased 100%.

Allanson's programs for 1974 should continue this unit's excellent return on investment.

Canada Brick



Business Description

Canada Brick serves 30% of the Ontario market for clay bricks from its quarry and manufacturing facilities at Streetsville, Ontario. The operations cover 250 acres and when clay deposits are exhausted in 10 to 15 years the area, which is adjacent to a residential development, is expected to have considerable redevelopment value.

Canada Brick has a long record of product development, and offers an increasing variety of styles of brick for all types of construction. The year 1973 saw the introduction of a completely new size of product. Known as "Tempo", it offers the customer an aesthetically pleasing product with a face area some 40% greater than conventional brick. It is used principally for residential construction where its size means savings to the customer. Its excellent market acceptance has strengthened the competitive position of Canada Brick.

Canada Brick has experienced difficulty in obtaining Ontario Municipal Board approval for construction of a proposed facility to produce a lower-priced concrete brick. It is hoped that a favourable decision will be obtained in the second quarter of 1974 and that construction can commence in 1974 or early 1975.

Operations and Prospects

Canada Brick Company opened 1973 with a full order book position and a reasonable inventory level. This situation, plus an increasingly buoyant demand in the housing market, allowed the Company to exceed sales of 100 million brick units in one year for the first time in its history.

The strong demand was not only for the new "Tempo" line, but for all product lines. This created difficulties for the manufacturing plant as it had to operate well over its rated capacity in an effort to meet the needs of customers.

During the last half of the year, procurement of raw materials and parts was difficult due to shortages, delayed deliveries and, in some cases, extreme price increases, all of which added to the difficulties of an already overworked plant.

Production plans for 1974 are to operate the plant at maximum possible output in anticipation of a buoyant market. The difficulty in obtaining certain supplies and the increasing costs of most purchases will be of continuing concern but it is expected that increased costs will be passed on to customers and will not affect profitability.

The operation entered 1974 with a heavily booked order position but a low inventory. This means shipments will be somewhat less than 1973, but benefits from capital expenditure incurred in 1973 should allow Canada Brick to maintain its present rate of earnings.

Forest Products Division

Divisional Analysis of Sales and Earnings from Operations
$ Million

	Sales				Earnings from Operations*				Tangible Assets Employed	No. of Employees
	1973	1972	1971	1970	1973	1972	1971	1970		
Forest Products										
Pulp	**13.4**	10.1	8.1	12.0	**1.2**	(1.0)	(.7)	.5	21.6	865
Nortar	**15.0**	12.1	10.0	8.1	**3.2**	1.4	.5	–	7.6	525
Total	**28.4**	22.2	18.1	20.1	**4.4**	.4	(.2)	.5	29.2	1,390

*Before financial expenses and income taxes.

Acadia

Business Description

Jannock's groundwood pulp and lumber facilities are located in Nelson-Miramichi, four miles south of Newcastle, New Brunswick. Timber limits cover approximately 1200 square miles within a 45-mile radius of the mill site. The company does its own logging and the limits guaranteed by the Province provide an adequate source of prime pulpwood for the mill. It uses the latest mechanical equipment in this activity and has relatively low cost timber resources with good access roads.

The mill was built in the early 1960's but profits have suffered from very volatile prices, as has demand for its product which is used principally to supplement supplies of pulp to paper mills in Western Europe, the Far East and the United States.

Operations and Prospects

With the exception of 1970, when Acadia Pulp realized nominal profits, the year 1973 marked the first time the plant has operated profitably. This was attributable to a vigorous recovery in the price paid for mechanical groundwood pulp, particularly in the second half of the year. The market price has increased from U.S. $65 per ton at the beginning of 1973 to $150 per ton at the present time.

The Company, in keeping with its responsibilities, has made a commitment to install a primary effluent treatment plant by June 30, 1975. The cost of this installation is presently estimated at $500,000.

It is expected the full effect of higher prices will be reflected in 1974 operations. This factor, together with the improvements in woodland operation and plant production, makes prospects for 1974 extremely bright.

Northern Tar

Business Descriptions

Northern Tar, Chemical and Wood Limited has been engaged in the production and preservative treatment of forest products – lumber, timbers, utility poles, and railway ties – since 1935.

Nortar's main operation, including woodlands, is centered at Thunder Bay, Ontario. Major production facilities include a random dimension sawmill, an eight-foot sawmill producing railway ties and lumber, dry kilns, planing mill, and a three cylinder treating plant located on 125 acres of leased land. At Prince Albert, Saskatchewan, a pressure treating plant and related components are engaged in the manufacturing and preservation of various products, including lumber, poles and fence posts.

Early in 1974 Nortar expects to negotiate a long-term supply agreement for a major part of its wood requirements with the Ontario Ministry of Natural Resources.

Operations and Prospects

An unprecedented buoyant market for forest products throughout most of 1973, coupled with high output levels, contributed to the highest sales and earnings in the 35-year history of the Company. While sales increased 25%, earnings from operations were approximately 133% over 1972.

In order to diversify its market areas, Nortar was successful in negotiating sales to the United Kingdom and became the first company to ship lumber from Thunder Bay to overseas markets. A sale of kiln-dried rough lumber to Libya was also loaded in the latter part of the year.

Prospects for 1974 are difficult to project because of the uncertain state of the U.S. economy. Provided lumber prices continue firm, however, it should be another profitable year. Because we are a relatively small supplier in an enormous market, we are confident that sales volume can be sustained at or near capacity.

Jannock Corporation Limited
and its Subsidiary Companies

Financial Review

Earnings

Earnings per share before extraordinary items increased 38% from 89¢ to $1.23.

It should be noted that in the earnings of 1973 the Corporation had a trading loss in sugar futures of approximately $3,700,000. (This compared to a $2,000,00 profit in 1972). The Board has laid down a policy of only utilizing the futures market to hedge its physical imbalance of sugars. As a consequence, the outstanding sugar future contracts at the end of 1973 were eliminated in the first quarter at a loss of approximately $450,000.

Summary of Divisional Performance

	Sales $'000		Earnings $'000		Total Tangible Assets Employed $'000	No. of Employees
	1973	1972	**1973**	1972	**1973**	**1973**
Food Products	**100,051**	77,831	**9,571**	9,117	**60,800**	**1,299**
Industrial Products	**40,603**	31,162	**6,570**	4,436	**21,000**	**743**
Forest Products	**28,392**	22,167	**4,382**	371	**29,100**	**1,390**
Sales/ Earnings from continuing businesses	**169,046**	131,160	**20,523**	13,924	**110,900**	**3,432**
Discontinued operations	**1,859**	5,747	**271**	153	–	–
	170,905	136,907	**20,794**	14,077	**110,900**	**3,432**
Financial & other expenses			**3,688**	3,559		
Income Taxes			**8,825**	4,127		
Net Earnings before Extraordinary items			**8,281**	6,391		

Extraordinary Items

During the year 1973 the Corporation sold certain investments and operating subsidiaries in order to rationalize the operating structure and, in addition, set up a realistic provision for possible diminution in value of their other investments, details of which can be seen in Notes 3 and 12.

St. Lawrence Brick

At the end of the year the Company purchased the minority interest in St. Lawrence Brick so as to own it entirely. Consequently, its balance sheet was consolidated at December 31, 1973, and its earnings will be included in 1974 results.

Capital Expenditures

During 1973 Jannock invested approximately $3,000,000 in extensions and improvements to the operations. In 1974, in addition to normal replacement items, the Corporation is planning two major expansions; the first being a doubling of the capacity of St. Lawrence Brick and the second an additional mill at Sonco Steel Tube Company. These expenditures amount to approximately $4,000,000.

Working Capital

Working capital of the Corporation remained approximately the same as the previous year, although long-term debt decreased by approximately $2,500,000. The working capital ratio in 1973 was 1.3:1. During 1974 refinancing of the bank debt is contemplated. This, together with the earnings for 1974 and the sales of certain investments and operating divisions, will increase the financial strength and liquidity of the Corporation.

Income Taxes

The rate of taxation shown in the consolidated statement of earnings is approximately 52%. While the majority of the operations are entitled to a lower rate under the manufacturing and processing credit, the loss in our sugar trading, which was in an offshore company and thus not deductible, offsets this particular benefit.

Cost Factors

The three major factors affecting the cost of manufacturing our various products are:

(a) Raw material.

(b) Labour.

(c) Energy consumption.

As many of the raw materials used are affected by world prices, i.e., sugar, copper and steel, the cost of production in 1974 is inevitably going to be much higher. For example, the price of sugar is in excess of $440 per ton (as at March 11, 1974), compared to a price of approximately $110 per ton in the summer of 1972. Copper prices in 1973 increased almost 50% and these are only two examples of the very substantial increases in all material used.

The Corporation currently employs approximately 3,500 people at a payroll cost in excess of $26,000,000 and to this must be added the cost of fringe benefits.

The other main item of importance today is the cost of energy consumption which has again increased by very substantial proportions over the total cost in 1973 of approximately $4,500,000, to an estimated level of $8,000,000 in 1974.

As a consequence of those outside influences (such as increases in oil prices) over which the Corporation has no control, it will be inevitable that increases will result in higher selling prices to consumers.

Quarterly Earnings

Sales and earnings on a quarterly comparative basis were as follows:

	Net Sales (Millions)		Net Earnings (Millions)		Earnings Per Share		Return on Sales	
	1973	1972	1973	1972	1973	1972	1973	1972
1st Quarter	**40.1**	30.3	**1.6**	0.6	**.23**	.03	**4.1%**	2.1%
2nd Quarter	**41.5**	34.8	**2.1**	1.4	**.28**	.19	**5.1**	3.9
3rd Quarter	**42.8**	36.6	**2.3**	2.1	**.36**	.33	**5.2**	8.7
4th Quarter	**46.5**	35.3	**2.3**	2.3	**.36**	.34	**6.0**	3.5
	170.9	137.0	**8.3**	6.4	**1.23**	0.89	**5.1%**	4.7%

Financial Performance Analysis

		1973	1972	1971	1970
Return on Sales	= Earnings / Sales	**4.8%**	4.6%	3.8%	4.1%
×					
Asset Turnover	= Sales / Assets	**1.28×**	.94×	.93×	.75×
=					
Return on Assets	= Earnings / Assets	**6.2%**	4.4%	3.6%	4.1%
×					
Leverage	= Assets / Equity	**2.3×**	2.5×	2.7×	2.9×
=					
Return on Shareholders Equity	= Earnings / Equity	**14.4%**	11.1%	9.5%	11.9%

Note: Earnings are before extraordinary items.

Tax on Undistributed Income

The tax on undistributed income as shown in the Statement of Retained Earnings was the amount paid on the 1971 Undistributed Income on Hand of Atlantic Sugar Refineries Co. Limited prior to amalgamation with The Glengair Group Limited. This was necessary to eliminate the designated surplus prior to amalgamation.

Investment Balance Sheet

The balance sheet which is presented on the following pages shows the consolidated balance sheet of Jannock but it does not show in which businesses the assets are employed. We felt some shareholders would find this information interesting and therefore we show below, in condensed form, our balance sheet analyzed to show investments in operating divisions.

Balance Sheet

as at December 31, 1973

$ Million

Investments			
Divisions	**Assets**	**Liabilities***	**Net Investment**
Foods Division	$ 60.8	$22.1	$38.7
Industrial Division	21.0	9.8	11.2
Forest Products Division	29.1	7.7	21.4
	$110.9	$39.6	$71.3
Other investments and marketable securities			6.3
Intangibles			12.6
			$90.2
Financed by:			
Issued Share Capital			
Common Shares			$21.1
Preferred Shares			25.3
Retained Earnings			11.3
Long-Term Debt			22.3
Bank Loans			7.7
Other Liabilities			2.5
			$90.2

*Liabilities include short and long-term debt and deferred taxes.

Jannock Corporation Limited

Consolidated Financial Statements

for the Year Ended
December 31, 1973

Corporate Directory

Bankers

The Toronto-Dominion Bank

Auditors

Coopers & Lybrand

General Counsel

Fraser & Beatty, Toronto
McCarthy & McCarthy, Toronto

Transfer Agents & Registrars

Guaranty Trust Company of Canada
Montreal, Toronto, Winnipeg, Calgary and Vancouver
6% Preference Shares
$1.20 Class A Shares

Canada Permanent Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver
6% Class B Shares
Special Shares
Class D Shares

Stock Listing

The Toronto Stock Exchange
Montreal Stock Exchange

Incorporation

Province of Ontario.

No. of Shareholders

Preference Shares	6568
Common Shares	7998

No. of Employees	3432

Auditors' Report

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Jannock Corporation Limited and its subsidiary companies as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the basis of recording deferred income taxes as set out in note 8 to the financial statements, on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

February 18, 1974

Jannock Corporation Limited
and its Subsidiary Companies

Consolidated Statement of Earnings
for the Year Ended December 31, 1973

	1973 $	1972 $
Sales	**170,905,197**	136,907,195
Cost of sales, selling, distribution and general expenses	**149,178,485**	121,388,067
Depreciation	**3,590,736**	3,658,613
Interest on long-term debt	**1,683,879**	2,108,874
	154,453,100	127,155,554
Earnings from operations	**16,452,097**	9,751,641
Investment and other income	**654,201**	858,234
Earnings Before Income Taxes	**17,106,298**	10,609,875
Provision for Income Taxes		
Current	**8,192,289**	2,373,770
Deferred	**632,741**	1,753,072
	8,825,030	4,126,842
	8,281,268	6,483,033
Minority interest	**–**	92,412
Earnings Before Extraordinary Items	**8,281,268**	6,390,621
Extraordinary Items (note 12)	**(2,172,094)**	1,065,118
Net Earnings for the Year	**6,109,174**	7,455,739
Earnings Per Share (note 10)		
Earnings before extraordinary items	**$1.23**	$0.89
Net earnings for the year	**$0.80**	$1.11

See accompanying statement of accounting policies and notes to the financial statements.

Jannock Corporation Limited

and its Subsidiary Companies

Consolidated Balance Sheet

as at December 31, 1973

Assets

	1973 $	1972 $
Current Assets		
Cash and short-term deposits	1,227,012	7,356,019
Marketable securities (note 2)	227,394	4,469,293
Accounts receivable	22,148,132	17,782,345
Inventories	21,489,945	25,079,216
Prepaid expenses and other assets	741,626	961,632
	45,834,109	55,648,505
Other Investments (note 3)	5,886,275	7,737,146
Fixed Assets – at cost (note 4)	100,631,985	100,946,771
Less: Accumulated depreciation and amortization	31,283,030	30,080,735
	69,348,955	70,866,036
Intangibles (note 5)	12,559,956	11,935,609
	133,629,295	146,187,296

See accompanying statement of accounting policies and notes to the financial statements.

Signed on behalf of the Board

W. J. R. Paton, *Director*

G. E. Mara, *Director*

		1973 $	1972 $
Liabilities	**Current Liabilities**		
	Bank advances (note 6)	**14,041,899**	26,496,000
	Demand note payable to a shareholder	**–**	3,000,000
	Accounts payable and accrued liabilities	**12,146,520**	12,437,642
	Income taxes payable	**3,693,544**	707,682
	Current instalments of long-term debt	**3,849,742**	1,352,921
	Dividends payable	**953,356**	676,560
		34,685,061	44,670,805
	Long-Term Debt (note 7)	**17,246,510**	29,661,556
	Bank Loan (note 6)	**10,200,000**	–
	Deferred Income Taxes (note 8)	**13,201,164**	10,937,328
	Minority Interest (note 9)	**641,150**	3,317,649
Shareholders' Equity	**Share Capital** (note 10)		
	Issued and fully paid –		
	75,000 6% Preference Shares, First Series	**7,500,000**	7,500,000
	435,000 $1.20 Class A Shares	**1,910,000**	1,910,000
	795,148 6% Class B Shares (795,127 shares in 1972)	**15,902,960**	15,902,555
	4,991,930 Special and Class D Shares (4,991,916 shares in 1972)	**21,078,887**	21,078,620
	Retained Earnings (note 11)	**11,263,563**	11,208,783
		57,655,410	57,599,958
		133,629,295	146,187,296

Jannock Corporation Limited
and its Subsidiary Companies

Consolidated Statement of Retained Earnings

for the Year Ended December 31, 1973

	1973 $	1972 $
Balance – Beginning of Year (note 1)		
The Glengair Group Limited – Consolidated retained earnings	11,018,756	7,581,009
Atlantic Sugar Refineries Co. Limited – Consolidated retained earnings	40,265,305	36,407,263
Consolidated contributed surplus	13,204,865	13,204,865
	64,488,926	57,193,137
Less:		
Excess of cost of cancelled shares of Atlantic over the paid-in capital	37,099,313	37,099,313
Share of earnings of Atlantic applicable to Glengair since date of acquisition	7,190,002	4,664,611
	20,199,611	15,429,213
Prior years' deferred income taxes (note 8)	8,990,828	8,990,828
As restated	11,208,783	6,438,385
Net earnings for the year	6,109,174	7,455,739
	17,317,957	13,894,124
Dividends –		
Preference shares	412,500	375,000
Class A shares	652,500	522,000
Class B shares	1,191,709	954,175
Special and Class D	1,252,907	823,974
	3,509,616	2,675,149
15% tax paid on 1971 undistributed income	2,384,632	13,982
Expenses of amalgamation and other (net of deferred income taxes)	160,146	(3,790)
	6,054,394	2,685,341
Balance – End of Year	11,263,563	11,208,783

See accompanying statement of accounting policies and notes to the financial statements.

Jannock Corporation Limited
and its Subsidiary Companies

Consolidated Statement of Source and Use of Working Capital
for the Year Ended December 31, 1973

	1973 $	1972 $
Source of Working Capital		
Net earnings for the year before extraordinary items	8,281,268	6,390,621
Items not affecting working capital –		
Depreciation and depletion	3,590,736	3,658,613
Deferred income taxes	632,741	1,753,072
Amortization of deferred financing costs	66,306	48,040
Minority interests	–	92,412
Current income taxes applicable to extraordinary items	247,159	1,730,088
Provided from operations	12,818,210	13,672,846
Proceeds on sale of other investments	1,285,774	–
Reclassification of bank loans to long-term	10,200,000	–
Elimination of working capital deficiency of subsidiary previously consolidated	–	496,909
	24,303,984	14,169,755
Use of Working Capital		
Additions to fixed assets – net	1,241,588	4,239,713
Losses on disposal of marketable securities and provision for losses	494,143	–
Acquisition of minority interest in subsidiary companies –		
Minority interest in net assets	664,240	48,115
Excess of cost of investment over book value of net assets acquired	275,730	–
Minority interest in preference shares of subsidiary companies redeemed	96,425	–
Elimination of working capital of subsidiary previously consolidated	241,575	–
Reduction of long-term debt	14,108,546	2,197,271
Purchase of other investments	260,218	150,204
Dividends	3,509,616	2,725,763
Payment of 15% tax on 1971 undistributed income	2,384,632	–
Expenses of amalgamation and other	249,941	–
Working capital deficiency and additional investment in previously unconsolidated subsidiary	605,982	–
	24,132,636	9,361,066
Increase in Working Capital	171,348	4,808,689
Working Capital – Beginning of Year	10,977,700	6,169,011
Working Capital – End of Year	11,149,048	10,977,700

See accompanying statement of accounting policies and notes to the financial statements.

Jannock Corporation Limited
and its Subsidiary Companies

Statement of Accounting Policies

Outlined below are those policies considered particularly significant.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries with the exception of certain insignificant subsidiaries which are to be sold or wound up and are accounted for on the equity basis. Inter-company transactions and year-end account balances have been eliminated on consolidation.

Inventories

Commodity inventories are stated at the lower of cost and replacement cost. Other inventories are stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first out basis.

Receivables

Receivables are shown net of any allowances for doubtful accounts. The basis of setting up the allowance depends on the terms of the trade.

Fixed Assets

Land, buildings, timber limits, plant and equipment are carried at cost, less government grants received which are not deductible for tax purposes.

Ships are included at cost to the Corporation plus the government subsidy.

Depreciation of fixed assets is based on management's consideration of the useful life of the assets, mainly on a straight-line basis.

Profits and losses on the sale of fixed assets, unless of an extraordinary nature, are charged to operations.

The difference arising from the straight-line useful life principle for the Corporation's statements and any accelerated basis for tax purposes is set up as deferred taxes.

Deferred Taxes

Deferred income taxes are set up as and when they arise.

Intangibles

Excess of cost of investment in subsidiaries is recorded as an intangible asset. It is not being amortized as management believes it has a continuing value.

Deferred financing and other similar costs are amortized over the period of the obligation in relation to the amount of debt outstanding.

Deferred leasing costs are amortized on a straight-line basis over the period of the lease.

Translation of Foreign Currencies

Translation of accounts in foreign currencies has been made as follows:

(a) current assets and current liabilities – at the rates of exchange at the balance sheet date;

(b) fixed assets, related depreciation and long-term debt – at the rate of exchange prevailing at the time of acquisition or incurrence;

(c) all items, excluding depreciation, on the statement of earnings – at the average rate of exchange for the period calculated on a monthly basis.

1 The Amalgamated Corporation

The corporation was formed on June 29, 1973 by amalgamation of The Glengair Group Limited (Glengair) and Atlantic Sugar Refineries Co. Limited (Atlantic).

At the date of amalgamation, the net assets of Glengair, consolidated except for the investment in Atlantic shares included at cost, amounted to $41,839,000 including $12,389,500 goodwill. The consolidated net assets of Atlantic, exclusive of the proportion attributable to the interest of Glengair therein, amounted to $23,143,000 including $485,000 goodwill.

To effect the amalgamation, 2,931,995 Special shares of the corporation (58.7%) were issued to the shareholders of Glengair and 2,059,935 Special shares (41.3%) to the shareholders (other than Glengair) of Atlantic. The shares of Atlantic owned by Glengair were cancelled with the excess of the cost of these shares plus the share of earnings of Atlantic since acquisition over the paid-in value being charged to combined retained earnings. The Special shares issued have been stated in the accompanying consolidated balance sheet of the corporation at $21,078,887, being the aggregate of the amounts attributed thereto in the accounts of the predecessor companies.

The combination has been accounted for as a pooling of interests and the accompanying consolidated statements of earnings and retained earnings for 1972 and 1973 include the combined operations of both predecessor companies for those years. The 1972 figures, which were audited in part by other Chartered Accountants, have been reclassified and restated, where necessary, for comparative purposes.

2 Marketable Securities

Marketable securities are stated at cost less a provision for loss (market value $230,045; 1972 – $4,177,325).

3 Other Investments

Other investments are valued at cost less amounts written off.

	1973		1972	
	Book Value $	Market Value $	Book Value $	Market Value $
Quoted Shares –				
ITL Industries Limited	906,099	561,465	906,099	459,394
Orangeroof Canada Limited	2,227,639	2,262,750	2,827,639	3,387,750
Other	353,181	310,636	1,323,219	367,058
	3,486,919	3,134,851	5,056,957	4,214,202
Unquoted Shares	233,259		405,380	
Debentures and other –				
ITL Industries Limited	1,500,000		1,500,000	
Other	666,097		774,809	
	5,886,275		7,737,146	

4 Fixed Assets

Fixed assets are classified as follows:

	1973			1972
	Cost $	Accumulated Depreciation $	Net $	Net $
Land	1,639,425	76,563	1,562,862	994,099
Buildings	19,329,330	6,058,053	13,271,277	12,991,448
Timber limits	480,000	–	480,000	480,000
Plant, equipment, furniture and fixtures	52,029,127	20,081,997	31,947,130	30,895,723
Ships	27,154,103	5,066,417	22,087,686	25,504,766
	100,631,985	31,283,030	69,348,955	70,866,036

5 Intangibles

	1973 $	1972 $
Patents and other – at cost	25,457	31,139
Deferred financing costs	328,491	361,754
Deferred leasing costs	1,090,089	–
Excess of cost of investments in subsidiaries over book value of net assets acquired	11,115,919	11,542,716
	12,559,956	11,935,609

6 Bank Indebtedness

Current bank advances and the long-term bank loan are secured by inventories, a general assignment of book debts and other investments including shares of subsidiary companies. The long-term bank loan is scheduled for repayment $1,200,000 on February 1, 1975 and $3,000,000 in each of July 1975, 1976 and 1977, with interest at prime bank lending rate plus 1½% payable monthly.

Of the aggregate bank loans and advances, all but $847,247 at December 31, 1973 and $1,203,664 at December 31, 1972, is owing to a bank which is a shareholder of the corporation.

7 Long-Term Debt

	1973 $	1972 $
Jannock Corporation Limited		
Sinking fund debentures –		
Series 'A' 6 ¾% maturing in 1985	**1,662,580**	1,762,580
Series 'B' 6 ½% maturing in 1976	**1,400,000**	1,500,000
Sinking fund bonds –		
Series 'A' 4% maturing in 1974	**2,809,000**	2,956,000
Series 'C' 6% maturing in 1985 (U.S. $6,990,000)	**–**	7,489,749
First mortage bonds –		
7¼% maturing semi-annually until 1987	**1,262,169**	1,315,877
8¼% maturing semi-annually until 1988	**1,465,952**	3,805,024
8¾% maturing semi-annually until 1988	**822,570**	848,405
Note –		
8½% due 1976	**2,750,000**	2,750,000
Jannock Industries Limited		
6¾% Series 'A' sinking fund bonds maturing in 1984	**3,426,000**	3,636,000
Canadian Tuna Company (1965) Limited		
6¼% first mortgage bonds maturing quarterly until 1982	**963,183**	1,050,487
Northern Tar, Chemical and Wood Limited		
7.8% secured debenture maturing annually to 1978	**1,050,000**	1,160,000
Term loan repayable monthly at bank prime rate plus 2%	**–**	130,431
Canada Brick Company Limited		
6¾% first mortgage sinking fund bonds maturing in 1986	**1,130,500**	1,286,500
Tancord Industries Ltd.		
6¾% secured debenture maturing in 1974	**200,000**	800,000
St. Lawrence Brick Co. Limited		
9⅜% first mortgage Series 'A' sinking fund bonds maturing in 1990	**1,414,000**	–
9¼% subordinated sinking fund debentures maturing annually until 1990	**353,000**	–
Sonco Steel Tube Limited		
7¾% first mortgage repayable monthly until 1986	**387,298**	436,123
Miscellaneous	**–**	87,301
	21,096,252	31,014,477
Less:		
Sinking fund and principal payments due within one year	**3,849,742**	1,352,921
	17,246,510	29,661,556

		$
Payments required in the next five years to meet long-term debt instalments and sinking fund provisions are:	1974	3,849,742
	1975	1,102,684
	1976	4,971,211
	1977	1,042,132
	1978	1,063,553
		12,029,322

8 Deferred Income Taxes

A prior period adjustment of $8,990,828 has been made for previously unrecorded deferred income tax credits accumulated prior to the adoption of the tax allocation basis in 1968, reduced by subsequent charges to date. The recording of an amount of $1,132,110 applicable to subsidiaries acquired since 1968 has resulted in an increase in the excess of cost of investments in subsidiaries over book value of net assets acquired.

9 Minority Interest

Minority interest in subsidiary companies is as follows:

	1973 $	1972 $
Preference shares, par value	**641,150**	1,001,144
Common shareholders' equity	**–**	2,316,505
	641,150	3,317,649

10 Share Capital

(a) Authorized –

By articles of amalgamation dated June 29, 1973 the share capital was authorized as follows:

300,000 Preference Shares with a par value of $100 each issuable in series, the first series to consist of 75,000 preference shares to be designated as 6% Cumulative Redeemable Preference Shares redeemable at $105. In any subsequent series the board of directors shall, by resolution, fix the designation, preferences, rights and conditions.

435,000 $1.20 Class A Cumulative Shares without par value.

875,000 6% Class B Shares, with a par value of $20 each, redeemable after June 15, 1980 at par and convertible into Special or Class D Shares.

6,000,000 Special Shares without par value convertible into Class D Shares.

2,000,000 Class D Shares without par value convertible into Special Shares.

500,000 Common Shares without par value.

(b) Issued and fully paid as at December 31, 1973

Share Description	Number	Value $
6% Preference Shares First series	75,000	7,500,000
$1.20 Class A Shares	435,000	1,910,000
6% Class B Shares	795,148	15,902,960
Special and Class D Shares	4,991,930	21,078,887

Shares of Amalgamating Companies Converted

Share Description	Amalgamating Company	Number	Value $
5% Preference Shares	Atlantic	75,000	7,500,000
$1.20 Class A Shares	Atlantic	435,000	1,910,000
6% Class B Shares	Glengair	3,180,592	15,902,960
Common Shares	Atlantic	2,059,935	250,560
Common Shares	Glengair	11,727,980	20,828,327

The issued and outstanding shares of Glengair were converted into shares of the Corporation on the basis of 4 old shares for 1 new share and the issued and outstanding shares of Atlantic, except for 3,400,665 common shares with a related par value of $413,640 owned by Glengair which were cancelled on amalgamation, were converted into shares of the Corporation on the basis of 1 old share for 1 new share.

During the period from December 31, 1972 to June 29, 1973, 21 Class B and 14 Special Shares were issued for cash, expressed in post-amalgamation equivalent shares. No shares have been issued subsequent to June 29, 1973.

(c) Reservations of Capital Stock

(i) Share Purchase Warrants
There are share purchase warrants outstanding entitling the holders thereof to purchase an aggregate of 162,762 Special Shares of the Corporation at $12.00 per share if exercised on or before June 30, 1974 and $16.00 per share if exercised on or before the expiry date of June 30, 1976. In addition there are share purchase warrants outstanding entitling the holders thereof to purchase an aggregate of 239,070 Special Shares of the Corporation at $12.00 per share if exercised on or before March 1, 1976 and $14.00 per share if exercised on or before the expiry date of March 1, 1978.
There are 52,718 B warrants outstanding entitling the holders thereof to purchase for each warrant, one unit consisting of one and one-half (1½) 6% Class B Shares and one (1) Special Share at $48.00 per unit if exercised on or before March 1, 1976, and $56.00 per unit if exercised on or before the expiry date of March 1, 1978.

(ii) Employees' Options
185,000 Special Shares have been reserved under stock option plans to officers and employees.

The following share options are outstanding:

Number of Shares	Option Date	Expiry Date	Exercise Price $
30,000	November 30, 1973	October 31, 1976	7.00
56,250	October 31, 1972	October 31, 1977	7.00
20,000	October 31, 1973	October 31, 1978	6.50
38,400	June 18, 1969	June 18, 1979	7.00
9,000	April 19, 1972	April 19, 1982	7.00

With the execption of the option for 30,000 shares issued on November 30, 1973 the balance of the options are exercisable at a maximum annual rate of 20% per year on a cumulative basis.

(iii) Options resulting from guarantees aggregate 75,000 shares expiring April 17, 1975 at an exercise price of $6.40 per share.

(iv) 795,148 Special and Class D shares are reserved for potential conversion of the 6% Class B shares.

(v) The exercise of warrants, conversion or option privileges would not have a material dilutive effect on the earnings per share.

11 Retained Earnings

Retained earnings includes $13,204,865 of contributed surplus arising in 1967 from government subsidies in connection with the fishing and processing operations.

The Corporation has $28,814,829 of tax paid undistributed surplus and capital surplus as defined by the Income Tax Act which is available for payment of non-taxable dividends.

12 Extraordinary Items

	1973 $	1972 $
Reduction of income taxes on application of losses in prior years	–	1,730,088
Profit (loss) on disposal of marketable securties and other investments and provisions for loss	(1,387,446)	18,320
Losses on sale and discontinuance of operations including write-off of investment in subsidiary company	(784,648)	(733,159)
Organization and financing costs written off	–	(162,170)
Other	–	192,329
	(2,172,094)	1,045,408
Minority interest	–	19,710
	(2,172,094)	1,065,118

Above items are net of income taxes where applicable.

Notes to Consolidated Financial Statements
for the Year Ended December 31, 1973

13 Commitments and Contingent Liabilities

(a) As at December 31, 1973 the Corporation has commitments under leases extending for periods up to twenty years of an amount not exceeding $2,200,000 per annum. During the year the Corporation entered into an agreement to sell a tuna seiner for $2,000,000 and lease it back for a period of 15 years at $204,972 per year with an option to acquire the vessel at the end of the lease period at the greater of its fair market value or $200,000. The difference between the net book value of the vessel and the proceeds received from the sale has been reflected as a deferred leasing cost and is to be amortized on a straight-line basis over the term of the lease.

(b) The Corporation is required to set aside on May 1, in each year commencing in 1974, a maximum of $200,000 for repurchase of the 6% Preference Shares, First Series, at a price not exceeding $105.00 per share and the $1.20 Class A Shares at a price not exceeding $25.00 per share.

(c) The purchase price of a subsidiary, Sonco Steel Tube Limited, acquired in 1970, includes an amount of $2,750,000 which has not been reflected in the statements since the amount is contingent upon the earnings of such subsidiary over a five year period from the date of acquisition. The final price will be accounted for on January 1, 1976 with interest at 5%.

14 Statutory Requirements

(a) The aggregate direct remuneration paid or payable by the Corporation or its subsidiaries to the directors and senior officers (as defined by the Ontario Business Corporations Act) of the Corporation was $544,622 (1972 – $417,639).

(b) Sales by class of business were as follows:

	1973		1972	
	$000's	**%**	$000's	%
Food Products	**100,050**	**58.5**	77,833	56.9
Industrial Products	**40,604**	**23.8**	32,319	23.6
Forest Products	**28,520**	**16.7**	20,169	14.7
Other	**1,731**	**1.0**	6,586	4.8
	170,905	**100.0**	136,907	100.0

Jannock Corporation Limited
and its Subsidiary Companies

Historical Summary

	1973	1972	1971	1970	1969	1968
Income Information ($'000)						
Sales	**170,905**	136,907	128,462	105,454	94,162	71,845
Earnings from Operations	**16,452**	9,751	9,929	8,828	9,779	5,128
Net Earnings before Extraordinary	**8,281**	6,391	4,909	5,710	5,859	1,604
Net Earnings after Extraordinary	**6,109**	7,456	7,660	5,735	7,156	(1,199)
Earnings per Share						
Before Extraordinary	**1.23**	.89	.60	.76	.79	(.06)
After Extraordinary	**.80**	1.11	1.15	.76	1.05	(.63)
Balance Sheet Information ($'000)						
Working Capital	**11,149**	10,978	6,169	(1,274)		
Fixed Assets Net	**69,349**	70,866	73,030	74,847		
Other Investments	**5,886**	7,737	6,534	9,038		
Intangibles	**12,660**	11,936	12,769	12,452		
Total Assets	**133,629**	146,187	139,012	140,651		
Long-term Debt	**27,447**	29,662	33,917	35,353		
Deferred Income Taxes	**13,201**	10,937	10,822	10,640		
Minority Interest	**641**	3,318	3,416	3,587		
Preferred Shares – Book Value	**25,313**	25,313	25,313	25,313		
Shareholder Equity – Special and Class D	**32,342**	32,287	26,272	22,780		
Equity/Share	**6.48**	6.47	5.26	4.56		
Ratio Analysis						
Tests of Profitability						
Earnings from Operations/Sales	**9.3%**	7.1%	7.7%	8.4%		
Net Earnings before Extraordinary/ Shareholders' Equity	**14.4%**	11.1%	9.5%	11.9%		
Tests of Liquidity						
Current Assets/ Current Liabilities	**1.3**	1.2	1.0	1.0		
Quick Assets/ Current Liabilities	**.7**	.7	.6	.6		
Tests of Asset Management						
Receivables/Sales	**12.9%**	12.9%	11.7%	14.5%		
Sales/Inventory	**8.0**	5.5	6.5	6.4		
Sales ÷ Total Assets	**1.3**	.9	.9	.8		
Tests of Solvency						
Debt/Equity	**47.6**	51.5	65.8	73.5		
Earnings from Operations/ Bond Interest	**9.8**	4.6	3.8	4.2		
Total Assets ÷ Equity	**2.3**	2.5	2.7	2.9		

Board of Directors

Financial Calendar

Dividend Payment Dates

	Payment Dates	Indicated Rate
Special Shares	Jan. 1-April 1-July 1-Oct. 1	$0.34
Class D	Jan. 1-April 1-July 1-Oct. 1	0.40
6% First Preference	Mar. 15-June 15-Sept. 15-Dec. 15	6.00
Class A	Jan. 1-April 1-July 1-Oct. 1	1.20
6% Class B	Jan. 1-April 1-July 1-Oct. 1	1.20

The company has no common shares outstanding but the Special and Class D shares have all the characteristics of common shares, plus they are interconvertible. Shareholders have the option to hold Special shares and receive tax-paid dividends equivalent to 85% of the regular dividend, or Class D shares and receive the full dividend in cash. No additional tax is payable by the recipient of the dividend on the Special shares while holders of the Class D shares may claim the usual dividend tax credit. The two classes of shares are identical in all other respects, and are interchangeable.

Trading in Corporation's Securities

Six Months to December 31, 1973

	Volume (in 100's)	Opening	High	Low	Close
Special Shares	2,401	6-⅝	7-½	5-¾	6-⅛
Class D	206	6-⅝	7	5-¾	6
6% First Preference	46	68	69	65	65
Class A	236	14	14-¼	12-¾	13
Class B	550	12-¼	12-¾	11-¾	11-¾

V-Day Valuations

The market value on December 22, 1971, of Jannock securities for the purpose of computing capital gains tax was:

Special Shares/Class D Shares	Glengair $7.60 – Atlantic Sugar $6-⅜
6% First Preference	$62-⅜
6% Class B Convertible Preference	$12.40
A Warrants	Glengair $0.85 – Atlantic Sugar $1.40
B Warrants	$0.90

The Corporation has received the opinion of Fraser & Beatty that its shares are investments which a company registered under Part III of the Canadian and British Insurance Companies Act may purchase without using the so-called "basket clause".

	Year elected to Board of this or predecessor Company	
W. A. Andres	1973	Vice President, Finance, Pinetree Development Company Limited
L. H. M. Ayre	1968	Chairman and President, Ayre & Sons, Limited
G. R. Chater	1973	President, Grafton Group Limited
E. C. Daniher	1971	Chairman, Baker, Lovick Limited
V. E. Daughney*	1973	Vice President, Slater, Walker of Canada Limited
L. Y. Fortier	1970	Partner, Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault
J. H. Hawke	1964	Vice Chairman of the Board
Hon. S. A. Hayden, Q.C.	1939	Senior Partner, McCarthy & McCarthy, and a member of the Senate of Canada
L. C. E. Lawrence	1969	Company Director
G. E. Mara*	1973	President, William Mara Co. Limited
G. H. Montague*	1973	Vice President, MerBan Capital Corporation Limited
W. J. R. Paton*	1961	Chairman of the Board
M. Tanenbaum*	1973	President, York Steel Constru-tion Limited

*Member of the Executive Committee

Corporate Management

Graeme G. Kirkland, 36, President and Chief Executive Officer. Mr. Kirkland, a chartered accountant, was elected President of Jannock Corporation in November, 1973. He was previously Senior Vice President of Slater, Walker of Canada Limited. Prior to that, he was for nine years in senior financial and general management positions in a multinational United States food corporation, C.P.C. International Inc.

Leo E. Labrosse, 48, Executive Vice President, Foods Division. Mr. Labrosse holds a B.Com. degree from Sir George Williams University. He has been with Jannock Corporation and one of its predecessor corporations for 23 years. He joined Atlantic Sugar Refineries Co. Limited in the finance department, became President of Fishing Operations and later was Vice President, Finance of Atlantic Sugar prior to his appointment as operating head of the Foods Division.

C. W. (Leo) Leonardi, 48, a chartered accountant, is Executive Vice President, Finance and Treasurer of the Corporation. He held the senior financial position of one of Jannock's predecessor corporations prior to the amalgamation. Mr. Leonardi also has held line responsibility as President at different times of several subsidiary and affiliated companies. Prior to joining the group, he served in senior financial and general management positions in Europe and in North and South America.

R. G. (Rick) Munro, 38, Assistant Treasurer. A chartered accountant, Mr. Munro joined Atlantic Sugar Refineries Co. Limited in 1968 and served as a senior financial officer of that Corporation until the date of amalgamation. Prior to his employment with Atlantic Sugar, he had served as a manager with a national firm of chartered accountants.

George L. Ploder, 33, Controller. Mr. Ploder, a chartered accountant, joined one of the predecessor corporations in 1967 in the capacity of Assistant Treasurer. Prior to that he had served as a supervisor with a national firm of chartered accountants.

Douglas G. Sinclair, 52, Executive Vice President, Industries Division, joined the predecessor company, The Glengair Group Limited, in 1969 as Vice-President and General Manager of Operations. Prior to that he was President of Rubbermaid (Canada) Limited for eight years, having earlier been Vice President, Sales. Mr. Sinclair began his sales and management career following World War II service as a lieutenant in the Royal Canadian Army and Canadian Armoured Corps.

R. Harold Weir, 42, Vice President and Secretary, holds an M.B.A. degree and is a member of the Alberta Bar. For four years prior to the amalgamation he was Secretary of Atlantic Sugar Refineries Co. Limited. Previously, he was Secretary-Treasurer of an association of privately-owned grain-handling companies in Western Canada.

Operating Management

P. P. Tellier,
General Manager,
Acadia Pulp & Paper

G. E. Waring,
President,
Canadian Tuna Fishing Company

D. J. Kennedy,
President & General Manager,
Lyman Tube Division

D. Sonshine,
President & Chief Operating Officer,
Sonco Steel Tube Company

W. R. Parks,
President,
Northern Tar, Chemical and Wood Limited

André Goyer,
President,
St. Lawrence Brick Co. Limited

R. A. Crolly,
President,
Allanson Manufacturing Company

E. Y. Carlson,
President,
Canada Brick Company

W. J. Grant,
General Manager,
Atlantic Fish Processors Division

Jannock Corporation Limited

History

Jannock Corporation Limited is the continuing company resulting from the amalgamation of Atlantic Sugar Refineries Co. Limited and The Glengair Group Limited. Over the years, effective control of both Atlantic Sugar and Glengair was held by the Gairdner family of Toronto. Control of the Company changed in April 1973.

Recent History

April, 1973 Change of Ownership

A group of Canadian investors consisting of members of management, Slater, Walker of Canada Limited, MerBan Investment Fund and Max Tanenbaum, arranged to purchase from the Gairdner family a substantial portion of its holdings of Glengair common shares, leaving the Gairdner interests with a comparatively small holding in the Company. At the time of this transaction the Board of Directors was reconstituted with nominees of these new shareholders.

June, 1973 Amalgamation

Atlantic Sugar and Glengair amalgamated to form Jannock Corporation Limited.

November, 1973 Change of Chief Executive Officer

Graeme G. Kirkland was elected President, replacing J. Howard Hawke, President of Jannock and Glengair since 1969, who resigned.

Predecessor Company – Atlantic Sugar Refineries Co. Limited

Atlantic Sugar was incorporated in 1939 as Acadia Sugar Refining Company, Limited to acquire a sugar refining business in operation since 1893. The name Atlantic Sugar Refineries Co. Limited was adopted in 1962.

Initially, the Company operated sugar refineries in both Saint John, N.B. and Dartmouth, N.S. In World War II the Dartmouth facility was closed and all refining since has been carried on at Saint John.

In 1965 Atlantic commenced a program of diversification by acquiring control of Acadia Pulp and Paper Limited, owner of a groundwood pulp mill near Nelson-Miramichi, N.B. Atlantic then invested in a fleet of ten steel stern trawlers to fish for flounder, cod and other ground-feeding fish, and five purse seiners for catching tuna.

In late 1970 Atlantic purchased all the outstanding shares of Sonco Steel Tube Limited and Lyman Tube Limited. Sonco produces cold formed electrically welded mechanical steel tubes and hollow structural steel sections. Lyman Tube Limited is engaged in the warehousing and distribution of steel tubing.

Predecessor Company – The Glengair Group Limited

The Glengair Group Limited was incorporated in 1962 as Consumer Credit Corporation Limited. The name was changed to The Glengair Group Limited in 1966, at which time the Company acquired all the outstanding shares of Glengair Investments Limited, a holding company controlled by Mr. J. S. Gairdner. Glengair Investments Limited owned 75% of the common shares of Northern Tar, Chemical and Wood Limited, a 90% interest in V.P.G.L. Holdings Limited (which held a 50.3% interest in Venpower Limited, an electrical utility in Venezuela) and 100% of Canada Brick Company Limited.

In 1966 Glengair acquired control of Tancord Industries Ltd., manufacturer of cordage and twine products. In 1968 all the outstanding shares of Allanson Manufacturing Company Limited were purchased. In 1969 the purchase was made of Redi-Set Business Forms Limited, and a 51% interest in St. Lawrence Brick Co. Limited.

At the beginning of 1970 Glengair made an offer to purchase all of the outstanding common shares of Atlantic Sugar not already held by it. Prior to the offer, Glengair or the Gairdner family beneficially owned directly or indirectly approximately 42% of the issued and outstanding voting shares. As a result of the offer, Glengair increased its holdings to 62% of the outstanding common shares.

Reorganization

Prior to the amalgamation with Atlantic Sugar in 1973, Glengair sold its interests in Venpower Limited. Tancord has now wound up its cordage business and sold all the assets of Redi-Set Business Forms.

In late 1973 Jannock acquired the balance of the outstanding common shares of St. Lawrence Brick and commenced a corporate reorganization into the three basic businesses referred to in this report.